

REBUTTAL TESTIMONY

OF

IRIS N. GRIFFIN

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. I am Iris N. Griffin, Senior Vice President, Chief Financial Officer (“CFO”), and Treasurer of SCANA Corporation (“SCANA”) and South Carolina Electric & Gas Company (“SCE&G” or collectively the “Company”). My business address is 220 Operation Way, Cayce, South Carolina.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I have.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address positions taken by the Office of Regulatory Staff (“ORS”) and other intervenors in this docket. Specifically, I will be responding to ORS’s proposed rate plan, certain statements made by Mr. Anthony James, Mr. Lane Kollen and Mr.

1 Daniel Sullivan on behalf of ORS, and certain aspects of rate proposals
2 made by other intervenors in this matter.

3 Additionally, in this testimony, I am incorporating my direct
4 testimony from Docket Nos. 2017-305-E and 2017-207-E. That direct
5 testimony is attached as *Exhibit* __ (*ING-1A*) to this rebuttal testimony and
6 incorporated by reference in this docket. That testimony provided
7 additional information regarding developments since the filing of my direct
8 testimony in this docket. It describes the impacts of the credit rating
9 downgrades and the results of recent bond refinancing efforts.

10 **I. ORS’S TESTIMONY AND THE BASIS FOR THE JOINT**
11 **APPLICATION**

12
13 **Q. BY WAY OF BACKGROUND FOR YOUR TESTIMONY, WHAT IS**
14 **THE STATUTORY BASIS FOR SCE&G’S APPLICATION IN THIS**
15 **MATTER?**

16 A. SCE&G has filed its Joint Application in this proceeding under two
17 statutory provisions S.C. Code Ann §§ 58-33-280 (K) and 58-27-870(F).
18 The Joint Application explains that, as to a base load project in
19 abandonment, the “recovery of capital cost and the utility’s cost of capital
20 associated with them may be disallowed only to the extent [of imprudence]
21 The commission shall order the amortization recovery through rates of
22 the investment of the abandoned plant as part of an order adjusting rates
23 under this article.” In addition, the Joint Application also references S.C.

1 Code Ann § 58-27-870(F), which allows the Public Service Commission of
2 South Carolina (“Commission”) to order rate changes that do not involve a
3 recalculation of the utility’s overall rate of return. It is the Company’s
4 position that this statute allows rate changes to be made which result in rate
5 reductions, as is the case under the Customer Benefits Plan and the No
6 Merger Benefits plan, or which result in no rate change at all, as is the case
7 under the Base Request.

8 **Q. WHAT IS THE NATURE OF THE PRINCIPAL RELIEF BEING**
9 **REQUESTED BY SCE&G IN THIS PROCEEDING?**

10 A. As the Joint Petition states, in reliance on S.C. Code Ann § § 58-33-
11 280 (K) and 58-27-870(F), SCE&G is asking the Commission to:

- 12 1. Recognize the amount of the allowable investment in the NND
13 Project which is now subject to recovery in abandonment,
- 14 2. Reduce that investment through certain accounting adjustments
15 as specified in the Joint Petition,
- 16 3. Authorize SCE&G to amortize the remaining balance of that
17 investment into allowable utility expenses,
- 18 4. Specify the amortization period for recovery of that regulatory
19 asset, and

1 5. Allow SCE&G to recognize its statutorily mandated cost of
2 capital on the unamortized balance of that asset, again subject to
3 certain voluntary adjustments.

4 Under generally accepted accounting principles, the NND Project
5 investment that had been recognized on SCE&G's books as Construction
6 Work in Progress ("CWIP") has been properly recharacterized as a
7 regulatory asset. As set forth in the Joint Petition, it is that regulatory asset
8 which is to be amortized into rates and on which cost of capital is to be
9 recognized under S.C. Code Ann. §§ 58-33-280 (K) and 58-27-870(F).

10 **Q. HOW DOES SCE&G'S INVESTMENT IN NND PROJECT ASSETS**
11 **THAT WILL BE PLACED INTO SERVICE FIGURE INTO THE**
12 **REQUESTED RELIEF?**

13 A. In establishing the regulatory assets, rates and rate making
14 determinations related to the NND Project, SCE&G is requesting the
15 Commission to recognize that certain of the NND Project investment is
16 associated with transmission projects that have been or will shortly be
17 placed in service. The same is true of certain generation projects or assets
18 that are being placed in service. Those specific projects and assets are
19 discussed in the direct testimony of Mr. Kevin Kochems and Mr. Kyle
20 Young.

1 From a rate making perspective, SCE&G believes that the
2 investment in these projects and assets should be recognized in computing
3 SCE&G's rate base and allowable cost recovery. In addition, SCE&G
4 believes that the cost of capital associated with these amounts as well as the
5 depreciation expense and operating costs should be considered in
6 determining SCE&G's revenue requirements in setting rates and evaluating
7 the rate proposals being made in this docket under S.C. Code Ann. § 58-27-
8 870(F).

9 **Q. WHAT OTHER ISSUES ARE INVOLVED IN THIS PROCEEDING?**

10 A. The other issues to be resolved here include the merger approval
11 request, the calculation and return to customers of savings related to the
12 Tax Cut and Jobs Act ("TCJA"), and others. The Company believes that all
13 these issues go to the setting of rates for SCE&G that are just and
14 reasonable on a prospective basis under S.C. Code Ann § § 58-33-280 (K)
15 and 58-27-870(F).

16 **Q. IS SCE&G SEEKING ANY FORM OF RATE INCREASE IN THIS**
17 **DOCKET?**

18 A. No. As the other SCE&G witnesses and I have shown in our direct
19 testimony, the issues before the Commission can be resolved and
20 prospective rates can be established for SCE&G without any rate increase.
21 SCE&G's costs of utility operations, including costs of capital and

1 amortization of allowable regulatory assets fully justify the rates that will
2 return to force after the temporary rate imposed under Act No. 258 expires.
3 That is the case so long as the lawful and appropriate amount of the NND
4 Project investment is recognized for ratemaking purposes and recovered as
5 proposed here. In fact, if either the Customer Benefits Plan or the No
6 Merger Benefits Plan is adopted by this Commission, SCE&G will
7 voluntarily accept a 3.5% decrease in rates compared to rates as charged in
8 May of 2017 which is prior to the imposition of the temporary rates which
9 were established under Act No. 258, even though current utility expenses
10 and costs of capital fully justify pre-Act No. 258 rates.

11 For these reasons, it is my understanding that SCE&G has filed this
12 action under two specific statutes. The Joint Petition points to S.C. Code
13 Ann. § 58-33-280(K) which allows the Commission to determine matters
14 related to the proper rate making treatment of NND Project investment after
15 abandonment of the project. In addition, the Joint Petition points to S.C.
16 Code Ann. § 58-27-870(F) as applying to proceedings which do not involve
17 any increase in electric utility rates, and allowing the Commission in such
18 proceedings to set new rates and to determine rate making and regulatory
19 accounting matters, as presented in the Joint Petition.

20 **Q. DOES SCE&G SEEK ANY RELIEF UNDER THE REVISED RATES**
21 **PROVISIONS OF THE BLRA?**

1 A. No. The Joint Petition does not make any claim under the revised
2 rates provision of the Base Load Review Act (“BLRA”), which are found at
3 S.C. Code Ann § 58-33-280 (A)-(I), and therefore the relief requested here
4 does not seek or require any determination to be made under revised rates
5 provisions. Under the relief requested, the Company is asking that rate
6 recovery related to the NND Project investment going forward be based on
7 the provisions of S.C. Code Ann. § 58-33-280 (K) and S.C. Code Ann. §
8 58-27-870(F) exclusively.

9 **Q. DOES ANYTHING IN ORS’S TESTIMONY INDICATE THAT ORS**
10 **SHARES THIS UNDERSTANDING OF THE STATUTORY BASIS**
11 **OF THIS PROCEEDING?**

12 A. Yes. A review of ORS direct testimony in this docket indicates that
13 ORS also recognizes that the principal questions involved here concern the
14 amount of SCE&G’s investment in the NND Project that is subject to
15 recovery as abandoned plant, the appropriate adjustments to be made to that
16 investment, the amortization period for the recovery of the resulting
17 balance, the appropriate cost of capital to be applied, and the just and
18 reasonable nature of the rates to be imposed as charges prospectively. Like
19 the rates proposed under the Customer Benefits Plan and the No Merger
20 Benefits Plan, all rates proposed by ORS also involve a reduction in the
21 rates that will automatically return to force when the temporary rate

1 reductions imposed under Act No. 258 expire according to their terms.
2 ORS's direct testimony shows that it and SCE&G are in fundamental
3 agreement as to the nature of the principal questions before the
4 Commission, the prospective nature of the relief at issue, and the regulatory
5 and statutory framework under which we are operating.

6 **Q. DO THESE MATTERS HAVE PRACTICAL IMPLICATIONS FOR**
7 **THE DECISIONS TO BE MADE BY THIS COMMISSION?**

8 A. Yes. In the context of setting prospective rates, issues like the
9 proper treatment of transmission investment and investment in generation
10 plant in service cannot properly be ignored or deferred as ORS suggests.
11 That investment, and the cost of capital and depreciation associated with it,
12 should be recognized in determining what constitutes a just and reasonable
13 return for SCE&G prospectively. These costs are fully known and
14 measurable. SCE&G is in fact incurring financing costs on its investment in
15 these projects at its weighted average cost of capital. SCE&G has in fact
16 been incurring depreciation expense and other operating costs on these
17 assets from the time they were placed into commercial service and
18 transferred out of CWIP accounts. The costs that SCE&G is recognizing
19 on its books are actual costs. Given the magnitude of these investments, and
20 the fact that they represent utility assets that are or will shortly be used and

1 useful in providing service to customers, they should be considered in
2 setting a just and reasonable rate for SCE&G to charge prospectively.

3 **Q. WHAT IS THE APPROPRIATE STARTING POINT FOR**
4 **MEASURING RATE CHANGES IN THIS PROCEEDING?**

5 A. The appropriate starting point for measuring rate changes in this
6 proceeding is the rate structure which was in place prior to implementation
7 of the temporary rate reductions mandated by Act No. 258. Those rates are
8 the result of an experimental rate reduction and legislation requires the
9 Commission to decide the issues raised in the Joint Petition and establish a
10 permanent rate by December 21, 2018 and at the conclusion of this
11 proceeding.

12 **II. THE ORS PLAN**

13 **Q. HAVE YOU READ ANTHONY JAMES'S AND LANE KOLLEN'S**
14 **DIRECT TESTIMONY ON BEHALF OF ORS THAT DESCRIBES**
15 **ORS'S PROPOSED REGULATORY PLAN?**

16 A. Yes, I have. In their testimony, they describe a plan that ORS
17 proposes as an alternative to SCE&G's three proposed rate plans, which I
18 will call the "ORS Plan."

19 **Q. WHAT IS YOUR UNDERSTANDING OF ORS'S PROPOSED RATE**
20 **PLAN?**

1 A. The ORS Plan would provide a net rate reduction of \$560.7 million
2 and \$527.5 million in 2019 and 2020. The ORS plan provides no recovery
3 for SCE&G's investment in the NND Project after March 12, 2015 and no
4 recovery through current rates for the capital invested in transmission and
5 generation projects which are in fact used and useful and are being placed
6 in service for the benefit of customers and are described in the testimony of
7 Mr. Kevin Kochems and Mr. Kyle Young.

8 **Q. HOW DO YOU RESPOND TO THIS PLAN?**

9 A. The Commission should not accept the ORS Plan. First, as the
10 testimony of other SCE&G witnesses shows, it is unreasonable and without
11 justification to disallow recovery of the capital costs of the NND Project
12 that were incurred after March 12 2015. As the Commission found on
13 multiple occasions and in multiple orders, these costs were prudently
14 incurred and are properly included in the capital costs of the project for
15 BLRA recovery purposes, including recovery under S.C. Code Ann § 58 –
16 33 – 280 (K) and S.C. Code Ann. § 58-27-870(F). Furthermore, there is no
17 basis to reverse the prudence determinations made concerning these costs
18 as the testimony of SCE&G's other witnesses also establish. They remain
19 in full force and effect. In its direct testimony, ORS has admitted that
20 SCE&G's July 31, 2017 abandonment decision was prudent. Accordingly,
21 it is SCE&G's position in this proceeding that under S.C. Code Ann § 58 –

1 33 – 280 (K), the costs associated with the NND Project investments both
2 before and after March 12, 2015 should be recognized for rate making
3 purposes.

4 **Q. HOW WOULD YOU RESPOND TO ORS'S PROPOSALS RELATED**
5 **TO TRANSMISSION AND GENERATION INVESTMENT THAT**
6 **CONSTITUTES PLANT IN SERVICE?**

7 A. The ORS Plan does not allow any recovery in current rates for the
8 costs associated with the transmission and generation projects and assets
9 that have been or will be placed in service and the cost of capital,
10 depreciation, and other operating costs associated with them. These assets
11 are or will very shortly be used and useful assets, and the costs associated
12 with them have been prudently incurred and are fully known and
13 measurable. There is no basis to reverse the prudence decisions made
14 concerning them or to fail to reflect the costs associated with them in the
15 rates that will be established in this proceeding.

16 **Q. HOW DO YOU RESPOND TO ORS'S PROPOSALS RELATED TO**
17 **SCE&G'S CAPITAL STRUCTURE FOR RATE MAKING**
18 **PURPOSES?**

19 A. In its plan, ORS recommends that SCE&G's cost of capital on
20 allowable NND Project investment be computed using a fixed rate of return
21 that includes a 52.81% equity ratio and a 47.19%, long-term debt ratio, a

1 return on equity of 9.1%, and a cost of debt of 5.56%, which purports to
2 reflect SCE&G's recent debt issuances.

3 SCE&G accepts that the cost of capital should be based on a capital
4 structure that does not reflect the impact on equity balances of impairments.
5 However, SCE&G rejects the suggestion that anything other than its actual
6 cost of capital should be used in setting rates, either in this proceeding or
7 other proceedings. SCE&G's cost of capital is an objective number and
8 represents a real cost of investing in utility assets to serve customers. To
9 limit that cost of capital to a level that is less than the actual cost violates
10 SCE&G's right to a just and reasonable return from its investment in its
11 electric utility system. If SCE&G is not allowed an opportunity to recover
12 its actual cost of investing in utility assets, this will injure customers in the
13 long term by creating a disincentive to continued investment in the system.

14 **Q. IS THE COST OF DEBT FIGURE OF 5.56% USED BY ORS IN ITS**
15 **PLAN CALCULATIONS ACCURATE?**

16 No, ORS's assumes a cost of debt that is not accurate. SCE&G has
17 calculated its weighted average cost of debt as of the end of September 2018
18 using the same methodology that has been used in multiple proceedings before
19 this Commission. The result of that calculation yields a weighted average cost of
20 debt of 5.58% not 5.56%.

1 **Q. ORS RECOMMENDS THE TAX SAVINGS RIDER WHICH SCE&G**
2 **HAS PROPOSED SHOULD BE ESTABLISHED TO CAPTURE \$98.7**
3 **MILLION IN SAVINGS. IS THIS FIGURE CORRECT?**

4 A. No, it is not. SCE&G has calculated the level of anticipated TCJA
5 savings based on actual 2017 financial results, as adjusted for standard rate
6 making pro forma adjustments. The 2017 test period represents the most
7 recent 12-month calendar year period for which data is available and
8 therefore provides the most current assessment of tax savings. The ORS
9 calculation is based on stale data. The most recent 12-month calendar
10 period is a relevant starting point for this analysis because 2011 data does
11 not reflect the current economic reality and would inappropriately provide
12 “tax savings” SCE&G is currently not realizing. Furthermore, Joint
13 Petitioners have agreed to a rate freeze to retail electric base rates for two
14 years and using 2011 data in calculating the “tax savings” would further
15 disintegrate the economic deal proposed under the Customer Benefits Plan.
16 Calculations based on the most current 2017 data show the TCJA savings to
17 be \$67 million for the base retail electric business, not \$98.7 million as
18 ORS would indicate. This amount represents the reduction in current
19 income tax expense, as well as the flow back of excess deferred income
20 taxes (EDIT). Mr. James Warren will discuss additional concerns with the

1 timing and the amounts of the EDIT amortization proposed by ORS in his
2 testimony.

3 **Q. ORS RECOMMENDS IMPLEMENTATION OF A ONE-TIME**
4 **REFUND OF \$68.2 MILLION FOR THE BASE RATE AND**
5 **REVISED RATE INCOME TAX SAVINGS IN 2018 DUE TO THE**
6 **TCJA. DO YOU HAVE AN OPINION ON THIS**
7 **RECOMMENDATION?**

8 A. SCE&G does not object to implementation of such a refund in the
9 amount proposed. However, SCE&G's calculation of the base rate and
10 nuclear revised rate income tax savings is closer to \$100 million when
11 considering the impact of EDIT amortization.

12 **Q. HAVE YOU REVIEWED ORS'S CALCULATIONS REGARDING**
13 **THE TOTAL WRITE OFFS THAT WILL RESULT FROM**
14 **IMPLEMENTING THE ORS PLAN?**

15 A. Yes, I have, and they are inaccurate. ORS's computation of total
16 write-offs assumes that the Commission will specifically disallow certain
17 costs and that no additional indirect disallowances result from the
18 Commission's Order. Under Generally Accepted Accounting Principles,
19 consideration must be given to all actions of the regulator, and it is unclear
20 that the write-offs computed by ORS are the only such write-offs that
21 would be required. Even so, given the write-offs the Company has already

1 taken, and even assuming the write-offs stated by ORS to arise under the
2 ORS Plan were complete and accurate, those write-offs would be
3 detrimental to the Company's credit metrics, and financial soundness.

4 **Q. HOW DO YOU RESPOND TO ORS'S ASSERTION THAT**
5 **INCENTIVE COMPENSATION PAYMENTS ASSOCIATED WITH**
6 **THE PROJECT SHOULD BE DISALLOWED?**

7 A. Company employees look at their total compensation package and
8 incentive or at-risk compensation is an important part of that total
9 package. Incentive compensation is not considered to be an extra in the
10 sense of money that is given away which is not earned. It is instead a
11 foundational part of the compensation package that the Company offers
12 employees. For the Company to attract and retain qualified personnel, it
13 must offer a total compensation package that is competitive with the market
14 and the utilities and other businesses with which we compete for personnel,
15 which includes at-risk compensation. In addition, at-risk compensation is
16 particularly useful as a management tool because it ties compensation to the
17 achievement of specific goals which are important to the success of the
18 Company.

19 SCE&G measures its compensation packages against the market and
20 ensures that its compensation, including at-risk compensation, is aligned
21 with market rates and expectations.

1 SCE&G, ORS and others extensively litigated the issues of at-risk
2 compensation in SCE&G's last retail electric rate case, Docket No. 2012-
3 218-E. In that proceeding, SCE&G's witnesses reviewed the Company's
4 at-risk compensation plans in detail. The description of the programs and
5 their justification remains valid today. In the order it issued in that
6 proceeding, the Commission found that "there are sound reasons for
7 offering incentive compensation as part of a competitively reasonable
8 compensation package" and that "incentive compensation is an accepted
9 and necessary component of a utility company's compensation package . . .
10 ." Order No. 2012-951 at 28.

11 Nothing in ORS's testimony addresses or calls into question the
12 justifications for incentive compensation as a necessary and appropriate
13 part of the compensation package that the Company offered its employees
14 during the course of the NND Project. In addition, the amounts in question
15 that ORS would delete from the NND Project expenses, which total \$9.3
16 million for the period 2008-2015, were all reviewed and approved by ORS
17 in their auditing of the actual costs of the project, and were approved in the
18 orders issued by the Commission related to this project in all relevant
19 periods. The proposed adjustment to exclude incentive or at-risk
20 compensation is not warranted.

1 **III. FINANCIAL RESULTS FROM ORS'S PLAN**

2 **Q. HAS SCE&G CALCULATED THE ANTICIPATED FINANCIAL**
3 **RESULTS IF THE ORS PLAN WERE TO BE IMPLEMENTED?**

4 A. Yes, SCE&G has quantified financial results that can be anticipated
5 if the ORS Plan were to be adopted. That calculation was made using the
6 same test period data, pro forma adjustments, and methodologies that were
7 used in computing the financial analyses presented in Exhibits ING-1, ING-
8 2, ING-3, and ING-4. This analysis is attached hereto as *Exhibit __, ING-*
9 *2A*. Because of simplistic assumptions used by ORS in its proposal, certain
10 additional assumptions were required to be incorporated into the calculation
11 as are noted on the Exhibit.

12 **Q. PLEASE EXPLAIN THE RESULTS OF THIS ANALYSIS.**

13 A. *Exhibit __ (ING-2A)* demonstrates that had the ORS Plan been in
14 effect during an adjusted test period reflecting the 12 months ended
15 December 31, 2017, SCE&G would have earned a return on equity
16 ("ROE") of 7.66%, which is 259 basis points lower than its allowed ROE
17 of 10.25%, as established in Order No. 2012-951. It would have required
18 approximately \$103 million in additional annual retail electric revenue in
19 order to raise SCE&G's ROE from 7.66% to the Commission-approved
20 10.25%.

1 But this 7.66% ROE is achieved only after SCE&G writes off
2 approximately \$2.5 billion in assets. This would result in an incremental
3 capital cost impairment of \$1.4 billion above the \$1.1 billion in total asset
4 impairments SCE&G has already recorded. This means that in addition to
5 earning only a 7.66% ROE on remaining assets, SCE&G's investors will
6 not earn any return at all on \$2.5 billion in investment, and that capital will
7 never be returned to them through depreciation or amortization. This ROE
8 also assumes that the TCJA and merger savings proposed by ORS would be
9 realized. If SCE&G provides savings that it is not currently realizing as
10 previously discussed in my testimony, this ROE result of 7.66% would be
11 further decreased, resulting in the need for additional annual retail electric
12 revenues in order to raise SCE&G's ROE to the Commission-approved
13 10.25%.

14 **Q. WHAT WOULD THIS MEAN FOR SCE&G FINANCIAL**
15 **SOUNDNESS?**

16 A. As the Company's witness, Ellen Lapson testifies, implementing the ORS
17 Plan would disrupt the Company's finances and weaken its creditworthiness. It
18 would hurt the Company's ability to raise capital and it would create financial
19 risk. Our cost of capital would increase. Investment in our system could be
20 constrained. Customer rates could be negatively impacted.

21 **Q. HOW DO YOU RESPOND TO CLAIMS THAT YOUR**
22 **PREVIOUSLY FILED EXHIBITS, ING-1, ING-2, ING-3, AND ING-**

1 **4, ARE NOT ACCURATE REPRESENTATIONS OF SCE&G'S**
2 **CURRENT ELECTRIC OPERATIONS?**

3 A. The methodology used in preparing the analyses shown on ING-1,
4 ING-2, ING-3, ING-4 and ING-2A is the same adjusted historical test year
5 methodology which is the principal methodology that has long been used in
6 South Carolina for rate making calculations. South Carolina is a historical
7 test period jurisdiction and the methodology used in these exhibits is
8 historical test period methodology.

9 **Q. WHAT DOES THE USE OF AN HISTORICAL TEST YEAR**
10 **METHODOLOGY ENTAIL?**

11 A. In South Carolina, regulated utility rates are analyzed based on
12 financial data and results achieved during a recent historical test period as
13 adjusted for known and measurable changes occurring outside of the test
14 period. These known and measurable changes are made by means of pro
15 forma adjustments to test period data. This ratemaking approach and
16 analysis is used in South Carolina and specifically used in reference to
17 SCE&G. Indeed, these analyses are the same sorts of analyses on which
18 SCE&G's electric and gas rates have been set for decades.

1 **Q. IS HISTORICAL TEST PERIOD RATE MAKING MORE LIKELY**
2 **TO OVERSTATE OR UNDERSTATE RETURNS?**

3 A. Historical test period rate making analysis is a conservative means of
4 analyzing expected returns and setting rates. It is conservative in that it
5 favors ratepayers because it typically understates the relative growth in
6 utility's costs compared to utility revenue going forward. This concept is
7 known as regulatory lag and typically results in actual utility returns that
8 are lower than those that are calculated using the historical test period
9 analysis.

10 **Q. WHY IS THIS THE CASE?**

11 A. Utility costs typically increase more quickly than revenues because
12 of a combination of factors including inflation and continued investment in
13 new or upgraded utility assets (old, highly depreciated, low original cost
14 assets are continuously being replaced by new, more expensive, un-
15 depreciated and higher cost assets). In addition, utilities must bear the cost
16 of increasingly stringent reliability, security and other regulatory
17 requirements. The pro forma adjustments that are allowed for costs and
18 revenue changes in historical test period analyses understate this imbalance.

19 **Q. DOES EXPERIENCE BEAR THIS OUT?**

20 A. Yes. There is nothing hypothetical about regulatory lag. Regulatory
21 lag is well recognized in the industry and has been repeatedly and

1 consistently demonstrated in the experience of SCE&G and other utilities.
2 In my experience, SCE&G, like most utilities subject to historical test
3 period rate making, typically does not achieve its allowed return even in the
4 years immediately following a rate adjustment. In almost all cases, the
5 actual returns, as adjusted for weather, are materially less than those
6 calculated on historical data. Therefore, the analyses presented in my
7 exhibits likely overstate SCE&G's probable earnings and make it likely that
8 the under-earning of allowed returns will be even greater than that which
9 my exhibits forecast.

10 **Q. MR. SULLIVAN POINTS OUT THAT THE PER BOOK AMOUNTS**
11 **REPORTED IN YOUR EXHIBITS DIFFER FROM SCE&G'S**
12 **DECEMBER 31, 2017 QUARTERLY REPORT. IS THERE AN**
13 **EXPLANATION?**

14 A. Yes, the difference in the per book amounts reported in my exhibits
15 compared to SCE&G's December 31, 2017 quarterly report is related to
16 rate base impacts from NND. The quarterly reports filed with the
17 Commission have historically been adjusted to exclude results for NND
18 since rate recovery was addressed in the BLRA filings. The exhibits I have
19 presented in this docket include NND to provide a complete picture of the
20 Company's regulatory earnings. The per book amounts in SCE&G's
21 quarterly report excludes NND data specifically identifiable in the

1 Company's financials (e.g., ADIT, Toshiba Proceeds). Otherwise, NND
2 items (e.g., revenues, CWIP) are removed through a pro forma adjustment.
3 The inclusion of these NND items results in a different rate base from
4 SCE&G's Quarterly Report. The rate base in my exhibits is the appropriate
5 rate base for this analysis.

6 **IV. OTHER RATE PROPOSALS**

7 **Q. THE SOUTH CAROLINA ENERGY USERS ARGUE THAT ORS'S**
8 **PROPOSED 18% RATE CUT SHOULD BE IMPLEMENTED**
9 **BECAUSE SCANA'S CURRENT SITUATION IS "MANAGEABLE."**
10 **IS THAT AN ACCURATE ASSESSMENT?**

11 A. No, it is not. Mr. Kevin O'Donnell on behalf of the South Carolina
12 Energy Users entirely ignores that a just and reasonable standard is
13 constitutionally mandated in all utility rate making proceedings. The goal
14 of regulation is not to determine how much can be taken from the utility
15 and its investors before triggering "unmanageable" financial consequences.
16 Regulation also does not require utilities to liquidate assets not related to a
17 particular utility service to fund this level of confiscation. Proposed rates
18 must be just and reasonable as those standards have been defined, and Mr.
19 O'Donnell makes no attempt to demonstrate that to be the case as to any
20 rates proposed here. Ms. Ellen Lapson will address this as well since Mr.
21 O'Donnell's testimony is in direct response to her testimony.

1 **Q. SIMILARLY, THE SOUTH CAROLINA COASTAL**
2 **CONSERVATION LEAGUE (“SCCCL”) AND SOUTHERN**
3 **ALLIANCE FOR CLEAN ENERGY (“SACE”) PROPOSE THAT**
4 **THE RATE IMPOSED UNDER ACT NO. 258 SHOULD BE**
5 **CONTINUED RATHER THAN AN ALTERNATIVE PLAN BEING**
6 **IMPLEMENTED. ARE YOU FAMILIAR WITH THIS PROPOSAL?**

7 A. Yes, SCCCL and SACE testify that the continuation of Act No. 258
8 rate reductions results in the lowest cost for ratepayers, lower even than the
9 Customer Benefits Plan, and they suggest that the Commission should
10 favor that approach. Just as with Mr. O’Donnell’s proposal, the suggestion
11 that the Commission should permanently enact the Act No. 258
12 experimental rates entirely ignores the just and reasonable standard that is
13 constitutionally mandated. As my direct testimony shows, making the Act
14 No. 258 scenario permanent would violate the Constitutionally-mandated
15 just and reasonable standard that applies to utility rate making and could
16 result in serious credit consequences for the Company. Among these
17 consequences would be the recording of significant impairments (simply
18 because the experimental rates do not provide for recovery of the costs of
19 the abandoned project and a return on them). Such impairments combined
20 with the permanently reduced cash flows of the business would erode the

1 credit metrics significantly thereby leading to higher cost of capital which
2 in turn would lead to higher customer rates.

3 **V. FINANCIAL CONCERNS AND ISSUES**

4 **Q. SCCCL AND SACE CONTEND THAT SCANA SHOULD SELL**
5 **PSNC ENERGY IN ORDER TO FINANCE ITS ELECTRIC**
6 **UTILITY WRITE OFFS. WOULD DOING SO BE APPROPRIATE?**

7 A. SCCCL and SACE fail to apply the just and reasonable standard. To
8 suggest that a utility holding company should be forced to sell gas
9 distribution assets in North Carolina in order to finance rate reductions for
10 electric customers in South Carolina is to admit that the proposed South
11 Carolina rate reductions are confiscatory. As a practical matter, selling
12 PSNC Energy would simply trade the value of its future cash flows in
13 exchange for a one-time capitalization of them. Both the SCANA Board
14 and the North Carolina regulators would have to approve such a sale.

15 **VI. TOSHIBA AND SECURITIZATION**

16 **Q. ORS ARGUES THAT SCE&G'S CLAIM THAT IT USED THE**
17 **TOSHIBA PROCEEDS TO "REPAY SHORT TERM DEBT OR TO**
18 **MEET CASH NEEDS THAT WOULD OTHERWISE HAVE**
19 **REQUIRED THE ISSUANCE OF SHORT TERM DEBT" IS**
20 **INCORRECT AND MISLEADING. IS ORS CORRECT?**

1 A. No, ORS is incorrect. Prior to monetizing the Toshiba claim,
2 SCE&G had a short term commercial paper balance of approximately \$700
3 million. This debt had accumulated over time due primarily to investment
4 in the new nuclear project. Typically, SCE&G would have issued first
5 mortgage bonds to convert this short term commercial paper to long term
6 debt. An average rate for 10-year utility first mortgage bonds at the time
7 the Toshiba proceeds were monetized was 3.25%. SCE&G would likely
8 have had to pay a higher rate due to the uncertainty regarding the
9 Company's credit at that time. Issuing over \$700 million of debt at 3.25%
10 would have created over \$20 million per year in interest expense, over \$200
11 million during the life of the debt.

12 SCE&G determined that it was in the best interest of customers and
13 for the financial health of the utility to use the Toshiba proceeds to pay off
14 that short term commercial paper balance that had accumulated primarily as
15 a result of the new nuclear project.

16 **Q. FURTHER, ORS RECOMMENDS THAT THE COMMISSION**
17 **DIRECT SCE&G TO RECORD A REGULATORY LIABILITY FOR**
18 **A DEFERRED RETURN ON THE PROCEEDS. WOULD SUCH A**
19 **DIRECTIVE BE APPROPRIATE?**

20 A. No. At no time relevant to this matter was SCE&G over-earning its
21 allowed ROE on retail electric operations. In fact, ING-1 shows that during

1 the most recent 12 month test period, as adjusted, SCE&G earned a return
2 which was fully 142 basis points lower than its allowed return. At no point
3 after the Toshiba payment was received did SCE&G earn an amount that
4 was close to its allowed return when all capital invested in its electric utility
5 system was considered. Therefore, to accept Mr. Kollen's suggestion
6 would be to exacerbate SCE&G's failure to earn a just and reasonable
7 return on its utility operations. In fact, Mr. Kollen's suggestion should be
8 seen as single issue rate making which is disfavored because it rarely
9 results in rates that are just and reasonable. Such rate proposals focus on a
10 single change in the utility's cost structure. Mr. Kollen's proposal is to
11 lower rates based on a single factor without consideration of the multitude
12 of offsetting changes that indicate that the utility is not earning a reasonable
13 return and that, all other things being equal, rates should increase and not
14 decrease if a just and reasonable return is to be allowed. If the financial
15 benefits of the Toshiba payments are to be taken into account, then
16 fundamental fairness would also require the Commission to take into
17 account investment in non-NND utility assets and rate base since the last
18 rate case, which is not yet reflected in rates, and other changes in SCE&G's
19 costs and investment, which lead to the material under-earning of a
20 reasonable return during this period as shown in my exhibits.

1 **Q. SCCCL AND SACE ARGUE THAT THE COMMISSION SHOULD**
2 **REQUIRE SCE&G TO USE THE SAVINGS FROM**
3 **SECURITIZATION TO FURTHER CLEAN ENERGY**
4 **DEVELOPMENT. WOULD SUCH A USE BE APPROPRIATE?**

5 A. No. As Dominion witnesses will explain, the securitization proposal
6 is premature and subject to major deficiencies. This proposal is conditional
7 on legislative action, which has not occurred. The financial practicality of
8 securitization or the savings from it, if any, cannot be quantified in the
9 abstract, and certainly not prior to knowing the terms of the necessary
10 legislation being adopted. In addition, the suggestion that the proceeds of
11 securitization be used for renewable energy purchases is not practical.
12 Securitization only works if the proceeds are used to reduce existing debt
13 and other financial obligations associated with the securitized asset.

14 **Q. THE US DOD AND FEA CONTEND THAT RATEPAYERS COULD**
15 **SAVE OVER \$1 BILLION IN NOMINAL DOLLARS IF THE NND**
16 **PROJECTS WERE SECURITIZED. SIMILARLY, SCCCL AND**
17 **SACE ARGUE THAT SECURITIZATION COULD SAVE**
18 **RATEPAYERS BETWEEN \$500 MILLION AND \$2 BILLION. DO**
19 **YOU AGREE WITH THESE ASSESSMENTS?**

1 A. These assessments are without substance since the terms on which
2 securitization might occur have neither been established nor have the costs
3 been fully quantified.

4 **VII. CONCLUSION**

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes, it does.